Grant & Brady
Certified Practising Accountants

CPA

JUNE 2018 NEWSLETTER

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2018 FEDERAL BUDGET WINNERS AND LOSERS

In his third budget on Tuesday 8 May 2018, Federal Treasurer, Scott Morrison, delivered personal income tax cuts, incentives for small to medium businesses, moves to keep older Australians working for longer and measures to curb the black economy.

Instant Asset Write-off extended for 12 more months

In a repeat of last year's budget, small businesses will be able to immediately deduct purchases of eligible depreciating assets costing less than $20,000 provided they are first used, or installed ready for use, by 30 June 2019. Only a few assets are ineligible (such as horticultural plants and in-house software). Depreciating assets valued at $20,000 or more (which cannot be immediately deducted) can continue to be placed into the general small business pool (the pool) and depreciated at 15% in the first income year, and 30% for each income year thereafter. The pool can also be immediately deducted if the balance is less than $20,000 over this period (including existing pools). From 1 July 2019, the immediate deductibility threshold, and the balance at which the pool can be immediately deducted, will revert to $1,000, although we are hoping this measure becomes a permanent fixture, as it encourages business to invest and create jobs and has a positive flow-on for many retailers.

Wages Earners

From 1 July 2018, the top threshold of the 32.5% tax bracket will rise from $87,000 to $90,000 which will prevent about 200,000 people from entering the 37% tax bracket in 2018/19. A new, non-refundable tax offset, in addition to the Low Income Tax Offset (LITO), will provide tax relief of up to $530 to low and middle-income earners from 2018/19. The offset will be received as a lump sum on assessment after individuals lodge their tax returns. The benefits provided by the low income tax offset (LITO) will be locked in by increasing the top threshold of the 19% bracket from $37,000 to $41,000 and increasing the LITO from $445 to $645.

Employers

A suite of measures have been announced which will assist employers who employ older Australians. The government has announced it will expand the Entrepreneurship Facilitators program and create a new Skills and Training Incentive to provide mature age workers with the opportunity to update their skills. Wage subsidies of up to $10,000 are also available to employers who employ older Australians.

Older Australians

The government is launching a scheme to help older Australians moving into retirement to draw on equity in their home in order to fund their retirement. The Federal Personal Loan Scheme makes non-taxable loans, paid fortnightly up to the amount of the age pension. It will be extended to full rate pensioners and self-funded retirees, so they can boost their retirement income by up to $17,800 for a couple, without impacting on their eligibility for the pension or other benefits. It's a welcome move for older Australian's who are asset rich but cash poor.

The Pensioner Work Bonus will be extended to encourage older people to stay in the workforce, so pensioners can earn an extra $1,300 annually without reducing their age pension payment. Self-employed individuals will be able to earn up to $7,800 a year.

In-home funding will be increased, with 20,000 extra care packages to help people stay in their homes rather than move into aged care.

2018 FEDERAL BUDGET—WINNERS & LOSERS

The Black Economy

In the context of the government's response to the black economy taskforce review, there will be new compliance obligations for some businesses commencing 1 July 2018, when the TPRS (Taxable Payments Reporting System) is extended to include security and investigation services, road freight transport and computer design and related services. There will be a $10,000 limit on cash payments across the economy, to reduce money laundering and tax evasion. Employers and contractors who do not meet withholding obligations will be denied tax deductions. The Treasurer says the measures will bring in $5.3 billion over the next four years.

Superannuation

Work Test Exemption

Currently, the work test requires individuals who are 65-74 to have worked at least 40 hours within 30 consecutive days in a financial year before they can make a personal contribution to superannuation. From 1 July 2019 the Government will introduce an exemption from the work test for voluntary contributions to superannuation. This is available for the following retirees:

- aged 65-74,

- with superannuation balances below $300,000, and

- in the first financial year that they do not meet the work test.

The exemption will be available for 12 months from the end of the financial year in which the individual last met the work test. Existing annual concessional and non-concessional caps ($25,000 and $100,000 respectively) will continue to apply to contributions made under the work test exemption. Catch -up concessional contributions also remain permissible during the 12 months.

Preventing inadvertent concessional cap breaches

From 1 July 2018, the Government will allow individuals with multiple employers and whose income exceeds $263,157 to nominate that their wages from certain employers are not subject to the compulsory Superannuation Guarantee (SG) contributions. The employee could negotiate to receive additional income instead of the SG contributions from their employer.

Increasing the maximum number of members in self-managed superannuation funds and small APRA funds

From 1 July 2019, the maximum number of members allowable in a new or existing self-managed superannuation fund (SMSF) or small APRA fund will increase from four to six.

Three-yearly audit cycle for some SMSFs

SMSFs currently require an annual audit. To reduce red tape for SMSFs with a history of good record keeping and compliance, the Government will change this to a three-yearly audit requirement. This measure will start on 1 July 2019 and eligible SMSFs will be those where the trustees have a history of three consecutive years of clear audit reports and have lodged the fund's annual returns in a timely manner.

Personal Income Tax

Personal Income Tax Bracket Thresholds

The Government will introduce a seven year Personal Income Tax Plan. Over a seven year period commencing in 2018-19 the top threshold for the personal income tax brackets will increase. After seven years the personal income tax brackets will be simplified to four brackets so the majority of taxpayers will be on a marginal tax rate of 32.5 per cent or less. The changes to the tax rates are detailed on page 4.

Two Percent Medicare Levy Retained

The Government will retain the Medicare Levy rate at 2.0% and will not proceed with the proposed increase to 2.5% of taxable income from 1 July 2019. Consequential changes to other tax rates that are linked to the top personal tax rate, such as the fringe benefits tax rate, will also not proceed.

Increase to Medicare Levy low-income thresholds

The 2017-18 financial year Medicare Levy low-income thresholds will be indexed for individuals and families. The threshold for singles will increase to $21,980 per annum and, for families with no children, increase to $37,089 per annum. For those individuals and couples who are eligible for seniors and pensioners tax offset (SAPTO) the thresholds will increase to $34,758 per annum and $48,385 per annum respectively. The additional threshold amount for each dependent child or student will increase to $3,406 per annum.

OTHER NOTABLE CHANGES FOR THE 2018 YEAR

- The NSW state government announced in its recent budget that it will be raising the **Payroll Tax threshold** up to $1,000,000 over the next four years. The threshold will change from $750,000 to $850,000 from 1 July 2018, and then increase $50,000 each year until 1 July 2021. This measure will bring a much needed respite for many employers. A review of the payroll tax administration will also be undertaken, aiming to identify opportunities to reduce the cost and burden of compliance.

- From 1 July 2018, goods with a **customs value** of AUD$1,000 or less will attract **GST** at the point of sale if the goods are imported by Australian consumers. Businesses with sales of $75,000 or more to consumers in Australia within a 12-month period, will need to register with the ATO, collect GST at the point of sale and remit the GST to the ATO. Previously, even if your business was registered for GST, you could not claim GST on goods purchased from overseas. These changes will now allow you to claim GST from overseas suppliers when they charge it.

- From 1 July 2018, the proceeds from the **sale of the main residence**, which has been owned for the past 10 or more years, can be contributed into superannuation. The vendor must be at least 65 years of age and the contribution is limited to $300,000 per person, meaning a couple could potentially contribute up to $600,000 into superannuation on the sale of their home. This is on top of the existing contribution caps and is not subject to any age or work test, or the $1.6M balance test.

- From 1 July 2017, **rental property owners** will no longer be able to claim travel expenses relating to inspecting, maintaining or collecting rent on their property. This does not apply to payments to rental property agents.

Also, if you purchase an **investment property** after 9 May 2017, you will not be able to claim deductions for any plant or equipment installed by the previous owner or those not used as rental property assets prior to this date. Importantly the new rules do not apply to deductions for structural and fixed items in an investment property. Therefore it is still important to obtain a quantity surveyor report on purchase of investment properties to determine allowable deductions.

- The annual cap on concessional **superannuation contributions** will be reduced to $25,000 from 1 July 2017. The annual non-concessional contributions cap also reduces from $180,000 to $100,000 on 1 July 2017, and those with a superannuation balance of more than $1.6M are no longer able to make non-concessional contributions.

- From 1 July 2017, regardless of your employment arrangement, you may be able to claim deductions for **personal superannuation contributions.** Individuals aged under 65 can claim a tax deduction for their personal superannuation contributions up to the $25,000 superannuation contribution cap. Those aged between 65 and 74 who want to claim a deduction, must meet a work test. For example: Diane earns $80,000 per annum and her taxable income, after other income and deductions is $77,400. Her employer is obliged to pay $7,600 in superannuation guarantee payments to her super fund. Diane can therefore make another $17,400 in superannuation contributions, taking her up to the $25,000 concessional contributions cap. Diane can claim her $17,400 superannuation contribution, which would reduce her taxable income to $60,000 and her individual tax payable by $6,003 (including the Medicare Levy).

TAKING CARE OF BUSINESS — YEAR END CHECKLIST

Here's a quick list of year end tasks for those of you in business. Taking care of these items ASAP will save you time and money:

- Superannuation contributions need to be paid ***and received*** by the fund prior to 30 June, in order to obtain a tax deduction in the 2018 year. With 30 June falling on a Saturday this year, we suggest contributions be paid as soon as possible.
- Any bad debts should be written off prior to 30 June in order to get a tax deduction in 2018.
- Logbook percentages for the financial year should be established to verify the business and private proportion of items such as motor vehicles, electricity, computer and telephone expenses.
- Prepare a list of creditors at 30 June, detailing the type of expense, gross amount and GST for each creditor.
- Prepare a list of debtors at 30 June, detailing the total gross amount and total GST included in your debtors.
- For those of you using MYOB/ Quickbooks, don't forget to reconcile your bank accounts, receivables and payables, and wages/PAYG Withholding tax to your activity statements and Annual PAYG Payment Summaries. Ensure any items posted to miscellaneous or asset accounts have a detailed description so we can ascertain the correct treatment for each item. Please do not start a new year (roll-forward) your file until we advise it is safe to do so.
- If you hold stock, ensure you do a stock take as at 30 June.
- With the increased frequency of cyber-crime, make sure you back up your computer files regularly and, ideally, in a location separate from where your computer is stored. Also ensure your important business documents, financial information and customer data are kept in a secure place.

Grant & Brady
Certified Practising Accountants

107 Murwillumbah Street
Murwillumbah NSW 2484
www.grantbrady.com.au

Phone: (02) 6672 1844
Fax: (02) 6672 1881
E-mail: admin@grantbrady.com.au

PARTNERS:

PETER R GRANT, CPA

STUART L BRADY, CPA

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TAX TIME HINTS AND TIPS

With the tax season now in full-swing, it's a good time to review some tax tips that will save you tax or increase your refund when you lodge your tax return.

It may seem self-explanatory, but a lot of people forget to keep receipts or misplace them.

The best recommendation we can make is to download the ATO's MyDeductions App on your smart phone or tablet. This app allows you to scan receipts and keep a record of your deductions. Alternatively, if you're a bit old school you can always keep a plastic container in your toolbox or at your workplace put your receipts in the container.

It's also a good idea to purchase tax deductible expenses on a debit or credit card – this way if you lose the receipt you still have a record of the purchase on your statement.

The ATO App can also be used to track business or work-related travel. There are two different methods that you can use to calculate your deduction.

For most people, the easiest method as far as record-keeping goes, and often the one that provides the greatest tax deduction, is the cents per kilometre method. You only need to record the dates and distance you travel for each work or business-related trip your make and multiply the total at a rate of 66 cents per kilometre (up to a maximum of 5,000km).

The log book method can be used regardless of the number of kilometres travelled. The claim under this method is calculated by recording your odometer readings in a log book for at least 12 weeks to determine the car's business-use percentage. You then calculate your deduction by applying this percentage to the cost of your fuel, registration, insurance, depreciation, repairs and other expenses. Your log book is good for five years and instead of keeping all your fuel dockets, your fuel can be estimated using your odometer readings.

TAX RATES

Rate	2017/2018	2018/2019-	2022/2023-	2024/2025
0%	$0 – $18,200	$0 – $18,200	$0 – $18,200	$0 – $18,200
19%	$18,201 – $37,000	$18,201 – $37,000	$18,201 – **$41,000**	$18,201 – **$41,000**
32.5%	$37,001 – $87,000	$37,001 – **$90,000**	**$41,001** – **$120,000**	**$41,001 – $200,000**
37%	$87,001 – $180,000	**$90,001** – $180,000	**$120,001** – $180,000	**N/A - bracket removed**
45%	$180,001 +	$180,001 +	$180,001 +	**$200,001 +**

Company tax rate is 27.5% (with less than $10M in turnover and carrying on a business)

Small businesses (other than companies) receive a 8% rebate on the tax they pay on business income